Development of Hitachi Capital

Hitachi Capital has offered financial solutions that support the mutual needs of manufacturers who are sellers and users who are purchasers and has established over its 60-year history based on trust from customers while leveraging the strengths of quality, Hitachi brand, and community-focus.

Hitachi Capital Report 2018

Key Challenges for Hitachi Capital

Hitachi Capital aims to be a Social Values Creating Company that can offer what customers and society really need by sincerely responding to social expectations such as SDGs\(^1\), accurately responding to social challenges as its own key challenges, and evolving on its own.

\(^1\) Hitachi Credit Corp.: A merging company; it previously dealt in offering monthly payment plans for home appliances.

\(^2\) Sustainable Development Goals: The 2030 Agenda for Sustainable Development was adopted at the 2015 United Nations Sustainable Development Summit. This includes a total of 17 goals and 169 targets.

\(^3\) Decent work: Human working conditions that allow people to carry on human lives.
### Materiality matrix

<table>
<thead>
<tr>
<th>Challenges with high needs from stakeholders that have not been sufficiently responded to</th>
<th>Issues that are key challenges for management with high needs from stakeholders as well</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessing and reducing the environmental load through businesses for the entire Group</td>
<td>Development of social innovation business and financial solutions services (resolution of social issues through businesses (including energy-, resource- and water-saving, and CO₂ reduction))</td>
</tr>
<tr>
<td>Attention to child labor or forced labor in businesses or at business partners</td>
<td>Corporate governance</td>
</tr>
<tr>
<td>Political contributions</td>
<td>Observing compliance</td>
</tr>
<tr>
<td>Consideration to rights of indigenous people in business activities</td>
<td>Reliability of the commitment and vision of top management</td>
</tr>
<tr>
<td></td>
<td>Engagement and establishment of trust relationship with employees</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Needs that are focused on in management but that have a medium level of needs from stakeholders</th>
<th>Business materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social contributions (correcting disparities and resolving challenges for socially vulnerable groups (people in depopulated areas, people with disabilities, etc.) through business)</td>
<td>Low</td>
</tr>
<tr>
<td>Accountability of products and services and engagement with stakeholders (including the timely disclosure of information)</td>
<td>Medium</td>
</tr>
<tr>
<td>Lower birthrates and aging population, diversity</td>
<td>High</td>
</tr>
<tr>
<td>Respect for human rights (including business partners and local residents, not only internally)</td>
<td></td>
</tr>
<tr>
<td>Employee safety and risk management (prevention of crime and violence, release from discrimination and persecution)</td>
<td></td>
</tr>
<tr>
<td>Relationship with the government (prevention of corruption, anti-competitive behavior, public policy)</td>
<td></td>
</tr>
</tbody>
</table>

### Risks and opportunities for the Company

#### Opportunities

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Resolution of social issues through businesses (including declining birthrate and aging population and energy and resource issues)</td>
<td>4. Governance risks</td>
</tr>
<tr>
<td>2. Advance of globalization (overseas expansion, localization, and expansion of business area at an early stage)</td>
<td>5. Strategic risks</td>
</tr>
<tr>
<td></td>
<td>7. Operational risks</td>
</tr>
</tbody>
</table>

#### Risks for the Company

- 4. Governance risks
- 5. Strategic risks
- 6. Financial risks
- 7. Operational risks

### Selection Process for Key Challenges

In fiscal 2015, a CSR Promotion Committee composed of managers and above from each department (domestic and international business departments and corporate CSR-related departments) considered key challenges for CSR (materiality) in order to achieve social development and abundant living for people in consideration of the global environment based on international guidelines, challenges as an industry, opinions on the efforts of Hitachi Capital in questionnaires in response to reports, and feedback from external evaluations related to the environment, society, and governance. First, we identified the risks and opportunities for the Company, compared them with the Group’s business strategy and efforts, and clarified the priority order for each challenge (materiality matrix). Based on this, we have put into practice our principles of sustainable growth, respect for human dignity, and implementation of corporate ethics in accordance with our core values through our business after discussions with top management, and positioned the ability to create and provide new social values as a Social Values Creating Company as a key CSR challenge for the Company.

### Income before taxes

<table>
<thead>
<tr>
<th>Year</th>
<th>Income before taxes (100 million yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>446</td>
</tr>
<tr>
<td>2016</td>
<td>460</td>
</tr>
<tr>
<td>2017</td>
<td>443</td>
</tr>
<tr>
<td>2018</td>
<td>500</td>
</tr>
</tbody>
</table>

- 2014: Acquired all stock of a finance company in Canada and a car fleet management company in Poland
- 2013: Consolidated NBL Co., Ltd. (current Hitachi Capital NBL Corporation)
- 2016: Share transfer of a portion of common stocks of Hitachi Capital owned by Hitachi, Ltd. was executed with MUFG Financial Group, Inc., two companies converted into equity method affiliates

### Community-focus

- Diverse products and services
- Diverse customers
- Diverse business areas
- Business foundation firmly rooted in the region

### Hitachi brand

- Solid financial base that is based on trust in the Hitachi brand
Hitachi Capital aims to continuously improve the corporate value by capitalizing on our strengths to provide solutions to social challenges and meet our customers’ needs as a Social Values Creating Company. This is part of our evolution from a conventional finance company to a multi-solution provider.
Our Vision

Environment
Continuously contribute to the sustainability of the Earth as the foundation for all life

Society
Contribute to the resolution of long-term social issues for many people including the future generations

Governance
Leverage capital gained through disciplined business activities that observe governance to improve economic value including profits and the financial base

Community-focus

Region
- Japan
- Europe
- Americas
- China
- ASEAN

Output
Financial for sales, financing, insurance
Settlement, asset management Facility management
Renewable energy Food and agriculture

Combined businesses
finance × services × commercialization × technological innovation
Vehicle solutions Social infrastructure/security Business for local government/public sector

Management foundation
Corporate divisions
Reducing risks for the Company’s supply chain as a whole

Hitachi Capital Report 2018
Hitachi Capital’s Growth Strategy
(Mid-Term Management Plan)

Hitachi Capital announced the FY2016-FY2018 Mid-Term Management Plan (“FY2018 Mid-Term Management Plan”) as its vision in June, 2016, and is now embarking on the Second Growth Stage. This calls for the company to evolve from a conventional finance company to a continuously growing multi-solution provider that contributes more to society through responding to social needs for a sustainable society.

Position of the FY2018 Mid-Term Management Plan

The FY2010-FY2012 Mid-Term Management Plan (“FY2012 Mid-Term Management Plan”) was positioned as a recovery stage, and the FY2013-FY2015 Mid-Term Management Plan (“FY2015 Mid-Term Management Plan”) was positioned as a growth stage. Then, under the FY2018 Mid-Term Management Plan, we have worked to accelerate growth as second growth stage. At the same time, we have conducted measures including upfront investments aimed at long-term growth, offered goods and experiences in response to the needs of society that are transforming along with the changes in the times, and aimed for medium to long-term improvements in corporate value while breaking away from the constraints of a mere finance company.

■ Second Growth Stage

Mid-Term Management Plans and Corporate Value

10 years from recovery to growth

FY 2013 to 2015

FY 2010 to 2012

FY2015 Mid-Term Management Plan
Growth stage

FY2018 Mid-Term Management Plan
Second growth stage

Mission (management policy)
Social Values Creating Company

10 years from recovery to growth

Next 10 years

Highlights

Based on our mission (management policy) as a Social Values Creating Company, we pursue value for society through dialogue with customers and the market, and aim for sustainable growth that will create and provide social values.

Global Business

Continuation of double-digit growth (based on local currency)
—Maintaining systematic and high growth potential
—Risk control that is adapted to regional characteristics
—Diversification of portfolio to create operational structures that are not susceptible to external environmental factors
—Overseas business ratio in fiscal 2018: 60% (in terms of income before taxes)

Japan Business

Aiming to achieve 2% ROA—Making the shift to the growth stage through the continuous structural reform of businesses
—Improvement in asset efficiency through the redefining of focus areas
—Strengthening of back-office administrative departments that help to improve competitiveness
—Tie-ups with partners
—Cultivating sophisticated human resources
—Proactive IT
—Implementation of strategic investments to support business growth (establishment of business partnership, M&As, and investment in IT and human capital)
—M&A: assets of 300 billion yen
—IT investment: 20 billion yen
—Human resource investment: increase in 200 advanced human resources

Proactive Investment

Business map

Our businesses in Japan

Focus Sectors
(Growth Sectors and
Grooming sectors)
Fundamental Sectors
Restructuring Sectors

Our global businesses

Maintaining systematic and high growth potential

Europe
Europe
Americas
Americas
China
China
ASEAN
ASEAN

Hitachi Group business: Provision of services that contribute to the Social Innovation Business

Creation of synergy through capital and business alliances between MUFG and MUL

Vehicle solutions: Evolution from vehicle finance to vehicle solutions and the creation of markets

Eco- and energy-related: Development of businesses based on two-way information sharing and support in Japan and abroad, with a focus on the creation and conservation of energy

Sales finance: Pursuit of low cost operations and provision of added value

Management foundation: First-rate management foundation helping to enhance competitiveness

Healthy Financial Fundamentals

Governance

Risk Management

Human Resources

Social Value Creation

Hitachi Capital Report 2018

9
Building Partnerships

Investments of 125 billion yen including tie-ups with partners

In fiscal 2016, Hitachi Capital agreed a business alliance with the global financial group, Mitsubishi UFJ Financial Group, Inc. (MUFG), and the lease and finance company, Mitsubishi UFJ Lease & Finance Company Limited (MUL), to expand their areas of business both in Japan and overseas, and reinforce their financial functions by combining their respective strengths and expertise. In addition, we will continue to further strengthen business alliances in the social innovation business, etc. with Hitachi, Ltd. ("Hitachi") as an important financial partner of the Hitachi Group.

Moreover, under the FY2018 Mid-Term Management Plan, we invested an amount equivalent to 125 billion yen during fiscal 2016 and 2017 in key areas in each region to strengthen partner tie-ups and M&As. During fiscal 2018, we will pursue M&As in the vehicle solutions and environmental and energy field in particular in an aim to accelerate growth.

### FY2018 Mid-Term Management Plan Partnership and M&A Cases

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Americas</strong></td>
<td></td>
</tr>
<tr>
<td><strong>China</strong></td>
<td></td>
</tr>
<tr>
<td><strong>ASEAN</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
</tr>
</tbody>
</table>

#### FY2016
- Concluded basic agreements on business alliances between two companies (Hitachi Capital and MUL) and five companies (Hitachi Capital, Hitachi, MUFG, MUFG Bank, and MUL).
- Concluded capital alliance between three companies (Hitachi Capital, MUFG and MUL).
- Commenced operations of Hitachi Power Solutions Co., Ltd. and Hitachi Sustainable Energy, Ltd.’s wind power generation system.
- Constructed a Mega Solar Power Plant in Niimi City, Okayama Prefecture in cooperation with Hitachi, Ltd. and Hitachi Green Energy Corporation.
- Concluded agricultural business agreement with Yonitan Village, Okinawa aimed at the realization of next-generation farming and started strawberry production and sales business.
- Concluded the University-Industry Collaboration Agreement with Tokyo University of Agriculture (the university and Hitachi Triple Win Corporation obtained the Global GAP certification for their farms).
- Hitachi Triple Win Corporation invested in the Kamikawa Taisetsu Sake Brewery participating in the planning of the sake production and sales business.
- Established the Renewable Energy Partners LLC Silent Partnership investment fund with MUL to invest in solar, wind, and biomass power.
- Hitachi, Ltd., SABILKAS Co., Ltd., and Hitachi Wind Power Ltd. completed two 2-MW wind power generation systems for EnEseed Kita-Kyushu Wind Power Plant.
- Hitachi Capital agreed a business alliance with Hitachi, Ltd. ("Hitachi") as an important financial partner of the Hitachi Group.
- Invested an amount equivalent to 125 billion yen during fiscal 2016 and 2017 in key areas in each region to strengthen partner tie-ups and M&As. During fiscal 2018, we will pursue M&As in the vehicle solutions and environmental and energy field in particular in an aim to accelerate growth.

#### FY2017
- Concluded capital alliance between three companies (Hitachi Capital, MUFG and MUL).
- Concluded basic agreements on business alliances between two companies (Hitachi Capital and MUL) and five companies (Hitachi Capital, Hitachi, MUFG, MUFG Bank, and MUL).
- Concluded capital alliance between three companies (Hitachi Capital, MUFG and MUL).
- Established Japan Infrastructure Initiative (JII) as an open financial platform (commenced business in April 2017).
- Implemented first financing project by JII (invested 75 million in UK rail infrastructure, High Speed 1).
- Finalized Hitachi Construction Machinery Co., Ltd.'s Kazakhstan suppliers credit agreement (First project after announcement of resumption of underwriting for more than two years deferred payment transactions through Nippon Export and Investment Insurance).
- Hitachi and Hitachi Capital Auto Lease Corporation started demonstration testing of a new breath alcohol detector with facial recognition.
- Hitachi Capital along with Sustaining Energy Company and Daiwa House Industry Co., Ltd. started solar sharing enabling solar power to be generated alongside farming.
- Hitachi Solutions Ltd. and Hitachi Capital started offering the monthly service Workstyle Innovation Solutions Pack complete with access for teleworkers to help workstyle reform.
- Daiwa House Industry Co., Ltd., Toyota Land Corporation, Eco Properties, Corp. and Hitachi Capital Community Corporation established the multi-tenant logistics facility (the Kuwana Project as tentative name) in the Chubu area.

#### FY 2018
- Concluded a basic agreement on business alliance with Hitachi Transport System, Ltd. to achieve new innovation through “Finance, Commerce, logistics, and Information”. (See P24)
- Hitachi Green Energy Corporation invested in JA Yuuki Aomori’s yam-based biogas power generation business.
- Hitachi Capital along with Sustainergy Company and Daiwa House Industry Co., Ltd. started solar sharing enabling solar power to be generated alongside farming.
- Hitachi and Hitachi Capital started offering the monthly service Workstyle Innovation Solutions Pack complete with access for teleworkers to help workstyle reform.
- Daiwa House Industry Co., Ltd., Toyota Land Corporation, Eco Properties, Corp. and Hitachi Capital Community Corporation established the multi-tenant logistics facility (the Kuwana Project as tentative name) in the Chubu area.

### Investment amount for each business location

- **Europe**: ¥25 billion (Vehicle solutions)
- **China**: ¥3 billion (Social infrastructure)
- **Japan**: ¥67 billion (Wind power generation, JII)
- **Americas**: ¥30 billion (Healthcare, IT)

*Amounts are calculated based on the exchange rate at the time of investment.
*Size of the circle: Scale of investment amount.

Hitachi Capital Report 2018 10
Cultivating Sophisticated Human Resources

Aiming to create a positive cycle for each and every employee to be excited about demonstrating “human capability,” thus growing the organization

In order to contribute to the solution of social issues through our business as a Social Value Creating Company, it is essential for each and every employee to work with stakeholders and continue providing solutions that anticipate change. To achieve this, Hitachi Capital requires each employee to be a sophisticated human resource with high market value and expertise. At the same time, we aim to create an open and natural corporate culture that attracts talent with “human capability,” which is appeal as a human being that makes stakeholders want to work with the person. Thus, an increase in sophisticated human resources is set out as one of the strategic investments in the FY2018 Mid-Term Management Plan.

Cumulative total of sophisticated human resources

FY2016 Actual 102 people
FY2017 Actual (cumulative) 172 people
FY2018 Mid-Term Management Plan Target (for FY2018) 200 people

(left and right, upper) A “meeting” convened in the office of CFO and Executive Officer Satoshi Inoue on Children Visiting Day held to promote work-life balance. Thirty-one children of our employees of elementary school age and younger visited the company to promote interaction in the workplace.

(right, lower) Selected members were provided with one-on-one lessons at an English language school in the Philippines for two months from the day after arriving in the country until the day before leaving in order to drive a powerful strengthening in English language skills as part of the company-wide program. Manager class and young employees were also included and participated starting in fiscal 2017.
**Cultivating Sophisticated Human Resources**

We have accelerated the development of sophisticated human resources in the form of investment in human resources to underpin business growth. Under the FY2018 Mid-Term Management Plan, we launched the English Language Skills Enhancement Program in order to strengthen Capital Leadership Development (CLD), our plan for the next generation of key strategic management positions (see P42), and global corporate governance as well as the increase in overseas M&As. We have been working to improve English communication skills, and 32 employees have completed overseas language training detachments since fiscal 2016. We are also striving to strengthen the management base through investment in human resources in areas such as personnel exchanges that include specialist fields and secondments with partner companies, provision of job grade- and specialty-specific education and training, and encouragement for obtaining qualifications in addition to securing human resources with high levels of expertise such as former employees of banks and trading companies.

**Work Style Reform through SKY Project**

Since fiscal 2017, Hitachi Capital in Japan has been implementing the SKY Project to reform working style through the creation of a positive cycle for the growth of every single employee and corporate growth by using the free time created by the improvement in productivity and reduction in overtime through work styles that do not require overtime and the Overtime ZERO initiative for "personal development" (see figure below). To reduce overtime hours, each department has published work indicators (average overtime hours, the number of paid vacation days taken, flextime utilization) on the intranet, and implemented initiatives with a sense of unity while promoting department-wide cooperation. In addition, measures to foster awareness about the payment of incentives tied to results in reducing overtime allowances have also paid off, and we have achieved the target work indicators to a large degree. In May 2018, we established a satellite office in addition to the existing telecommuting system with the aim of further reductions in total working hours and improvements in productivity through diverse work styles with the flexibility of not being limited to times and places. We have also established an extra career system (lifted the ban on second jobs and spare time jobs) and created an intrapreneurship program to support employees to think, act and take on challenges independently.

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**Work-styles that improve productivity and do not require overtime = overtime ZER0**

Achieving the budget is an "obvious" Each and every employee contributes to increased earnings as a professional

- New experiences
- Family time
- Human network
- Communication with other departments
- New ideas

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**The SKY Project, working style reforms, aiming to create a positive cycle of individual and corporate growth**

Sophisticated "Human Capability" which has the attractive points as to supposed to work together by stakeholders

Enriching private time

Enriching work

[Diagram showing various elements of the SKY Project like Self-improvement, Improving "Human Capacity", Enrich individuals, Improving productivity, Development of more sophisticated human resources, and Creating extra free time]
Feature Article: Mid-Term Management Plan Highlights

3 Proactive IT

From business and cost structure reform (smart transformation) to utilizing advanced IT to enhance quality and efficiency (digital transformation)

Under the FY2018 Mid-Term Management Plan, Hitachi Capital has been working to enhance business and cost quality and efficiency aiming for a high quality management base that contributes to strengthening competitiveness inside and outside Japan. In back office corporate departments that support front office operations, we have been promoting “proactive IT” consisting of IT infrastructure development that includes automating administrative work and utilizing more advanced IT, such as RPA and AI, going beyond system integration, abolition and amalgamation and updating. We have been moving away from operations based on the traditional intuition, fighting spirit, and grit to promote speedier information utilization and strengthen the capabilities to plan and propose the creative solutions that can only be done by a human being.

<table>
<thead>
<tr>
<th>Cumulative IT investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2016 Actual</td>
</tr>
<tr>
<td>¥5.4 billion</td>
</tr>
<tr>
<td>FY2017 Actual (cumulative)</td>
</tr>
<tr>
<td>FY2018 Mid-Term Management Plan Target (for FY2018)</td>
</tr>
</tbody>
</table>

Hitachi Capital received its first IT Encouragement Awards at the 35th IT Awards of the Japan Institute of Information Technology in February 2018 for construction of an efficient administrative system through system optimization (integration), in recognition of future potential and development possibilities. In May 2018, we received high acclaim, being selected under the 2018 Noteworthy IT Companies program of the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange.
Automating administrative work

As a result of repeated business selection to match the management environment and the systemization carried out each time, Hitachi Capital has four core systems, which has complicated administrative work and sub-systems, and running costs have increased.

To address this situation, under the FY2018 Mid-Term Management Plan, we are promoting (i) automation of administration to review back office and operational processes that support front office operations; and (ii) system integration for the optimal arrangement and consolidation of each system. Automation of administration means that we will review the operational flow including processes and procedure manuals to promote standardization so that outcomes are the same regardless of who does the work, achieving multi-skilled human resources. In addition, we will leverage the operational flow created through the automation of administration to consolidate the two core systems for each business segment (Vendor Solution \(^1\) and Account Solution \(^2\), etc.), reducing sub-systems by approximately 40% to achieve system integration with the optimal arrangement. As a result of the initiatives, the overhead ratio (OHR) in the Japan business has improved significantly. Moreover, a similar initiatives have also been implemented at Hitachi Capital Asia Pacific Pte. Ltd., and measures such as ensuring the preparation of business procedure manuals and linked system manuals to greatly improve operational efficiency such as preventing input errors and checking data inconsistencies have been contributing to low cost operations.

Utilizing advanced IT

At Hitachi Capital Group, we have been installing many advanced IT technologies and improving business efficiency. Not only have we clarified business processes by standardizing operations, we are also utilizing IT tools such as RPA and Groupware with the target of reducing total business hours across Group companies in Japan by 100,000 hours during the FY2018 Mid-Term Management Plan. For example, Hitachi Capital NBL Corporation has introduced a sales activities support system and smart phones to achieve speedy in-house collaboration and budget management that is not constrained by time or location. This has helped to improve performance including an approximate 18% year over year increase in contracts concluded despite a reduction of around 23% in overtime hours. In addition, we are also introducing work systems company-wide in line with the evolution in IT technologies, such as the introduction of the home teleworking system in FY 2017 and the satellite office in May 2018. Furthermore, the Mito Operation Center of the BPO Division at Hitachi Triple Win Corporation, which engages in payroll agency tasks, has improved significantly. Moreover, a similar initiatives has also been implemented at Hitachi Capital Asia Pacific PLC has introduced a rapid automatic credit system that is integrated with credit from employees. Rather than being completely automated, it coexists with customer satisfaction as it is also possible to make inquiries with a human operator, and has achieved rapid response times of about 30 minutes at the longest for even complex inquiries that accompany consultation with a human operator. Going forward, we will strengthen capabilities for planning and proposing the creative solutions that only a human being can do through digital transformation to promote the introduction of these kinds of advanced IT technologies, including in corporate departments.

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\(^{1}\) RPA (Robotic Process Automation): Automating the PC processes that implement operations with robots using software.

\(^{2}\) Vendor Solution: Financial services that provide the Group’s leasing and instalment solutions for needs such as the sales promotion of partner vendors. System requirements are characterized by a large volume of transactions depending on factors such as various amounts and risks but with no major differences in the content of transactions according to the partner vendor.

\(^{3}\) Account Solution: Provision of solutions through a combination of the Group’s finance, service and commercialization solutions and partner collaborations, particularly the Hitachi Group. System requirements are characterized by the need for detailed information customized for each customer.
Hitachi Capital aims to be a “Social Value Creating Company”, using the SDGs as the base to meet social challenges and the needs of customers as a truly needed multiple solution provider.

Aiming to be a “Social Value Creating Company”
—Hitachi Capital’s Mission and Value Creating Foundations

The Hitachi Capital Group is moving away from being a conventional finance company to be a socially necessary multiple solution provider that anticipates and provides what society really requires to achieve our mission to be a “Social Value Creating Company”. Amidst an ever-changing world and technical innovation, it is essential to anticipate social and market information to discover and provide for social challenges and customer needs. We go beyond providing customers with financial solutions to truly meet social challenges and customer needs through partnerships in which we link diverse industries with relationships that start in the upstream of the supply chain and leverage mutual strengths, and commercialization in which we enter businesses ourselves.

The Hitachi Capital Group engages in finance, services and commercialization as well as combined businesses in five regions consisting of the Japan Business and the Global Business, which consists of the four regions of Europe, the Americas, China and ASEAN. In both the Japan Business and the Global Business, we promote strategies specific to each region based on our concept of “community-focus” while managing governance from head office business divisions and corporate divisions as we do in the Japan Business. In particular, we have created structures that can promote growth through close communication with our local business sites. For businesses in which we engage in extensively within the Group, we also bring together people responsible for each business in Japan and overseas to share their know-how to form a common group strategy so that we can promote business development that is optimal for the entire group, rather than optimal for individual companies.

Moreover, in order to become a “Social Value Creating Company”, it is essential for employees to work with stakeholders having diverse values with the “human capabilities” that enable them to propose solutions that anticipate change. To achieve this, we require each and every employee to be a human resource with high market value and expertise; that is to be a sophisticated human resource, and Hitachi Capital initiated the SKY Project to bring about working style reform in 2017. Through the SKY Project, we are striving to create personal time for employees as well as foster the liberal arts and human capabilities to develop human resources that other people want to work with. We are also working to create a free and open-minded corporate culture that enables energetic human resources to work with purpose.

Since the founding of Hitachi Capital, we have engaged in business collaboration with Hitachi Group companies in the area of finance, including Hitachi, Ltd. (“Hitachi”) as a member of the Hitachi Group. In May 2016, we concluded a capital and business alliance agreement with Mitsubishi UFJ Financial Group, Inc. and Mitsubishi UFJ Lease & Finance Company Limited. Ten months after this agreement, a transfer of shares from Hitachi to the two companies was executed, and we began travelling a new road as an equity method associate of both Hitachi and Mitsubishi UFJ Financial Group while retaining the strong Hitachi brand.
Representative Executive Officer,
President & CEO
Hitachi Capital Corporation

Seiji Kawabe
Progress and evaluation of the FY2016-FY2018 Mid-Term Management Plan

In fiscal 2017, in order to increase ROE by improving ROA, we maintained systematic and high growth potential in the Global Business and concentrated on high profit sectors and improving profitability through streamlining administration in the Japan Business. Consolidated net sales for the fiscal year under review increased 9.0% year on year. The Global Business maintained its overall strong performance.

In addition, the Japan Business expanded focus sectors (social infrastructure, eco and energy, vehicles, and local government/public)\(^i\), such as social infrastructure (building leases) and eco and energy, and grew startup sectors (food, security and BPO)\(^i\). In the Global Business, in the Europe business, the UK gave formal notice of its withdrawal from the EU in March 2017, but there was no major change in the business environment, and the UK business performed steadily. Nevertheless, we established a new business office in Amsterdam in the Netherlands in September 2017 as a branch of Hitachi Capital (UK) PLC aiming for growth in continental Europe as well, and we also promoted M&As in the Netherlands and Poland as part of our reinforcement of vehicle solutions. In the China business, we conducted a structural reorganization to make Hitachi Capital Management (China) Ltd., our Hong Kong subsidiary, into an intermediate holding company in November 2017 in order to further strengthen functions for flexible fund procurement in the Chinese market, investment in infrastructure projects, and finance arrangement. In December 2017, we issued the first foreign currency denominated green bonds as a Japanese company in Asia. In the Americas business, we maintained robust performance in the commercial finance and Canada businesses, achieving double-digit top-line growth. In the ASEAN business, the results from reinforcement of the management base have appeared, and we will expand our business areas and the countries in which we operate going forward.

With regard to partnerships, we are building an unprecedented collaboration style and strong relationships between finance and manufacturers that leverages Hitachi Capital’s finance functions to the full as Hitachi’s important financial partner with a focus on Hitachi’s social innovation business. Moreover, Japan Infrastructure Initiative Company Limited (“JII”) established under the five-company business alliance with Hitachi, Mitsubishi UFJ Financial Group, Inc., MUFG Bank, Ltd., and Mitsubishi UFJ Lease & Finance Company, Ltd., started operations in April 2017, and has been serving as an open finance platform with two investment agreements already concluded, supporting exportation of Japanese infrastructures.

In a further partnership, we concluded a basic agreement with Hitachi Transport System, Ltd. (“Hitachi Transport System”) on a business alliance aimed at realizing new innovation through “Finance, Commerce, Logistics, and Information” in March 2018. Through this alliance with Hitachi Transport System, we will commence joint development aimed at the realization of an accident-free society and also discuss and consider capital participation in Hitachi Auto Service Co., Ltd., a wholly owned subsidiary of Hitachi Transport System. These initiatives will be social contributions as solutions for driver safety, which is one of the social challenges in the distribution industry, and are also expected to expand profit in business related to distribution.

In addition to the effect of increased sales, we have also promoted cost reductions through automation of administration in the Japan Business. We implemented business restructuring and structural reform in the foundation and restructuring sectors (vendor solutions, healthcare and agriculture), and we consolidated the front office functions for the vendor solution business into Hitachi Capital NBL Corporation\(^iv\) in October 2017. Meanwhile, however, as a result of conducting strategic investment targeting partnerships (M&As), human resources, and IT for growth in and beyond fiscal 2018, the second year of the Mid-Term Management Plan, profit attributable to owners of the parent declined 2.6% year on year to 32,057 million yen. By visualizing operations through the automation of administration\(^v\), going forward, we aim to reinforce the management base and strengthen competitiveness by promoting...
proactive IT”, increasing business efficiency through the introduction of advanced IT technology (digitalization) such as RPA and the SKY Project, integrating core systems and other measures.

Directions for the next mid-term plan
—Using SDGs as the base for business activities aimed at being a Social Value Creating Company

Under the FY2019-FY2021 Mid-term Management Plan, which is our next mid-term plan, we hope to utilize the SDGs as the base for the concept of our business activities so that we can contribute to a sustainable society aiming for our Mission to be a “Social Value Creating Company”. We have adopted a full-scale ESG perspective, which includes responding to environmental issues and social challenges and creating appropriate corporate governance structures, and we will continue working on business activities using SDGs as the base for going forward.

As part of our response to social challenges, we have already been pursuing activities and partnerships in accordance with the SDGs. In conjunction with this, we will also strengthen our accumulation of intellectual capital related to patents and engineering as non-financial capital and promote appreciation of social value creation at the Hitachi Capital Group more among stakeholders.

Moreover, Hitachi Capital has grown in the past with quality, the Hitachi brand, and community-focus mindset as our strengths. However, in addition to digitalization as our strength going forward, we will increase the utilization of data in financial services and commercialization to further raise the value of the solutions we provide. With the trend toward the sharing economy, a shift from the ownership to use of assets is underway. We will aim for digital transformation by proposing cost reductions and quality improvements through digitalization with the capture and analysis of data on assets such as equipment and better ways for customers to use them.

Corporate governance and communication

At Hitachi Capital, we treat corporate governance as an absolutely essential structure for identifying future risks and opportunities and realizing medium-to-long term sustainable growth. We have aimed to establish the optimal management system to comply with laws and social norms and to contribute to the enhancement of corporate value.

In order to separate supervising functions and business execution functions, identify business risks and opportunities, and balance speedy and appropriate solution of management issues with management transparency, we have employed the company with Nominating Committee, etc. structure since 2003 with reference to the corporate governance system at Hitachi, our parent company at the time. We also continuously work to improve effectiveness with repeated PDCA cycles which involve an annual evaluation of effectiveness followed by action and verification through evaluation of the issues that were identified the following year to improve the effectiveness of the Board of Directors aimed at sustainable growth and enhancement of corporate value over the medium-to-long term. In fiscal 2017, we held off-site meetings between the Independent Outside Directors and the President & CEO in order to conduct broad-ranging discussion outside of the framework of the Board of Directors. We have further deepened effective discussion in terms of more diverse perspectives, including the appointment of a female Director in June 2018. We will also pursue stronger monitoring and timely and appropriate management decisions in the area of governance in order to gain the trust of stakeholders with diverse values.

Furthermore, we are endeavoring to promote as much disclosure as possible in order to gain trust, taking into consideration active and open dialogue with investors, based on the belief that adequate disclosure of information is essential for investment decisions.

The Hitachi Capital Group will aim to realize our mission to be a “Social Value Creating Company” and gain the trust of all of our stakeholders as a company that is necessary and vital for society. We are committed to maintaining our growth in the future as an increasingly exciting company while constantly changing flexibly in line with the times.
Hitachi Capital Group’s focus in financial strategy

As the Chief Financial Officer, my main focus is on strengthening the financial base of each company in the Hitachi Capital Group and ensuring stable procurement of funds. Firstly, in addition to strengthening the financial base of each company and increasing the creditworthiness of the Group, there is a focus on enabling all Group companies to procure funds on the same level. Overseas subsidiaries in the Hitachi Capital Group procure funds independently through local financial markets. Therefore, if creditworthiness varies depending on the region, it is important that this does not impact on fund procurement costs.

Secondly, there is a focus on the construction of a safety net to provide overseas sites and subsidiaries with support from head office in emergencies in order to ensure stable procurement of funds. Specifically, I acknowledge that it is my role to make preparations for whatever happens, including securing commitment lines from banks and arranging parent-subsidiary loan mechanisms.

I check on the financial position of overseas Group companies, including ALM, regularly and share the information with the Board of Directors and the Executive Board. The Hitachi Capital Group owns approximately 3 trillion yen in assets, about half in Japan and half overseas. We manage procurement and investment through ALM and other means in our efforts to stabilize the financial base, which includes checking on the capital, financial soundness and quality of financial management at each Group company, including overseas subsidiaries. In addition, in the Hitachi Capital Group’s business, the majority of the liabilities on the balance sheet are external borrowings, and I believe it is also important to diversify fund procurement.

Importance of financial strategy that responds to changes in business

At present, the Hitachi Capital Group’s business is moving from providing conventional finance and increasingly concerns projects with direct involvement in commercialization and projects to provide solutions that do not require assets. In such a business environment, we believe that responding to changes in risks in line with assets is also an important role for a finance department. Taking risks is also important for increasing profitability, and as a result the asset portfolio will change. An appropriate diversification of the portfolio is important because the Company’s positives could be undermined if we take too many risks in search of profits.

In addition, the business portfolio has become more complex because the project length and cash flow are different for each project, and this also makes financial management difficult. There is a need to accommodate cash flow situations that differ from those in the past as in renewable energy generation projects in which there are long lead times from...
capital expenditure until generation of profit, for example. Therefore, in our finance departments, we emphasize not only leverage they management but also ALM tailored to asset portfolios that vary on the length and type of project.

**Hitachi Capital Group’s financial policy and KPIs**

At present, the KPIs in the FY2018 Mid-Term Management Plan currently underway are generally progressing in line with plans. In fiscal 2017, we implemented significant investment in streamlining with the aim of further increasing OHR viii. We expect that the effects will appear continuously in fiscal 2018 and beyond.

In our financial strategy, we put an emphasis on the ratio of equity attributable to owners of the parent i and the D/E ratio vii, which indicate financial soundness. In particular, rating agencies focus on ratio of equity attributable to owners of the parent, which is directly related to fund procurement costs. Therefore, the Company avoids excessive leverage, and operates with a ratio of equity attributable to owners of the parent in excess of 10% with a target debt/equity ratio of around 7 times. Aligning efficient fund procurement with the Company’s business characteristics, it is essential to maintain a balance sheet taking into account not only capital efficiency but also financial soundness.

**Enhancement of corporate value and shareholder returns**

It is vital to secure the internal reserves that are required to maintain the financial structure and a high credit rating as well as for strategic investment in order to enhance corporate value and achieve sustainable growth at the Hitachi Capital Group. Based on that, we determine the dividend from surplus, which is positioned as a key measure. This is because we believe that a strong financial structure and boosting procurement capabilities through the enhancement of owned capital are extremely important due to the nature of our business. We are committed to rewarding shareholders and investors with both capital gain viii from sustained growth in addition to income gain iii. I focus on appropriate financial management with the medium-to-long term growth cycle of the entire Group in mind.

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i Commitment line: Also referred to as a “line of credit from a bank“, a commitment line is an agreement under which a bank pledges (commits) to provide credit on request from the customer within the scope of the period and credit limit determined in advance between the bank and the customer (company, etc.). The objectives include ensuring stable working capital and securing the means to respond to unforeseen market circumstances.

ii Asset liability management: Refers to the comprehensive management of assets and liabilities, which is one of the risk management methods used by financial institutions. In a narrow sense, it refers to risk management of the fluctuation in assets and liabilities in relation to market interest rates.

iii Leverage: In economic activities, refers to increasing return on equity by utilizing borrowed capital and the multiple of the increase.

iv Overhead ratio: SG&A (excluding bad debt related expenses) as a proportion of gross profit.

v Ratio of equity attributable to owners of the parent: IFRS standard. Referred to as equity ratio under JGAAP.

vi Debt/equity ratio: Indicates interest-bearing debt as a multiple of equity to measure the soundness of corporate finances.

vii Capital gain: Refers to income obtained from increases in the price of assets. Specifically, it refers to gains on increases in the price of shares, bonds and securities investment trusts.

viii Income gain: Refers to income obtained through the ownership of assets. Specifically, it refers to dividends from shares, interest and gains from redemption from bonds, and income distributions from securities investment trusts.